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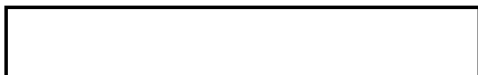


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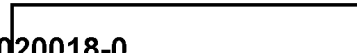
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This publication was prepared by the China branches of the East Asia - Pacific Division of the Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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China Backs the Arabs

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China has moved quickly to garner what political gains it can in the Arab world from the war with Israel. The official Chinese reaction to the war came on 8 October, when Foreign Minister Chi Peng-fei issued a statement blaming Israel for the fighting and expressing political support for the Arabs. Aware of Peking's limited leverage in the Middle East, Chi framed the pledge of support cautiously and did not even hint of any major Chinese material assistance. His caution may mean that Peking believes that the Arabs will not make major territorial gains from the fighting.

Chi's statement mentioned neither the US nor the USSR, but focused on Israel's responsibility for the fighting. Chinese media have taken a more critical view of the superpowers, however, asserting that Israel's "aggression" was the result of US and Soviet policies--the supplying of American "military aid" to Tel Aviv and the emigration of Soviet Jews to swell Israel's manpower. According to one article, the war in the Middle East is a result of US-Soviet "collusion and contention" in attempting to expand their spheres of influence.

The Chinese representative at the UN, Huang Hua, echoed this theme, indicating that Peking will try to wedge itself between the Arabs and the Soviets and to portray itself as the true friend of the Arabs no matter what may happen in the war. In his speech before the Security Council, Huang implied that US-Soviet detente works against Arab interests. If the Arabs sustain a setback, China will probably attribute it to US-Soviet collusion; if the Arabs are successful, Peking may well ascribe it to Arab willingness to ignore Soviet counsels of restraint and be "self-reliant."

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Trade Boom in 1973

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China's interest in foreign trade to fill domestic deficiencies has led to sizable orders for farm products, industrial machinery, and transport equipment over the past year. Total imports are likely to jump to \$3.8 billion this year, up from \$2.8 billion in 1972. The increase in exports will probably be less, from almost \$3.1 billion in 1972 to perhaps \$3.7 billion in 1973. As much as half of the expected increase in the dollar value of imports and exports, however, will be the result of the revaluation of the yen and other major world currencies and to the devaluation of the dollar.

Almost four fifths of China's trade is with the non-Communist world. In 1972, China achieved a \$50-million surplus in its trade with these countries, with exports of \$2.3 billion and imports of \$2.25 billion. In 1973, because of large imports of farm products, Peking is expected to incur a deficit of roughly \$300 million in its trade with the non-Communist world. Imports will probably range between \$3.1 and \$3.2 billion, exports between \$2.8 and \$2.9 billion.

Because of both higher prices and larger quantities, imports of grain, cotton, and vegetable oils should increase from \$450 million in 1972 to a record level of \$1.2 billion in 1973. Skyrocketing prices will increase the total cost of China's imports of fertilizer from \$190 million in 1972 to possibly \$250 million in 1973. China's imports of metals (steel, aluminum, and copper) in 1973 could rise to \$800 million, an increase of \$75 million over 1972.

In addition to larger purchases of these bulk commodities, China during the past year and a half has signed contracts for delivery over several years of more than \$2 billion of machinery and equipment. The contracts include almost \$1 billion in whole plants and \$800 million in transport equipment. These purchases already are four-to-five times greater than during any previous two-year period, and further contracts are likely before the end of the year. Japan is the largest supplier, followed by France, the United States, and several West European countries.

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Judging from partial statistical returns from 11 major non-Communist trading partners, China's exports will expand substantially in 1973. All major Chinese

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exports--foods, cotton and silk textiles, and light manufactures--are rising both in quantity and in price. The growth in imports, particularly with the non-Communist countries, will be even faster.

In spite of the large increase in imports and the likelihood of a big trade deficit with the non-Communist world, China shows few signs that it is facing a stringent foreign exchange situation.

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China's Foreign Trade

	Million US \$		
	<u>1971</u>	<u>1972</u>	<u>1973^{1/}</u>
Total			
Exports	2,415	3,050	3,700
Imports	2,280	2,780	3,800
Non-Communist			
Exports	1,830	2,305	2,850
Imports	1,805	2,255	3,150
Communist			
Exports	585	745	850
Imports	475	525	650

1. Preliminary estimates.

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Ideology and the Economy

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In the last two months many moderate economic policies have come under sharp criticism in the domestic media. This criticism comes at a time when the masses are being encouraged to oppose ideologically suspect policies. In response, a number of recent articles and broadcasts have gone to considerable lengths to rationalize present economic policies. Unless authoritative clarification, which has been conspicuously absent, is forthcoming, difficult decisions lie ahead for local officials charged with implementing economic policy.

Articles in the media that began appearing in the first week of August have centered on the role of ideology in production, a debate that has occupied and at times consumed China's top leadership for more than two decades. In recent weeks the national and provincial press has:

- stressed self-reliance in economic development;
- referred to material incentives as "a mistake that has been criticized in the past";
- discounted the role of skilled technicians and the need to import sophisticated technical equipment;
- admonished local cadre to examine carefully the leadership of local party committees for deviations from the "correct line."

The tenor of these articles appears to clash with what is, in fact, happening in China:

- purchases of highly sophisticated technology have increased to record highs;
- efforts have been made to revive the educational system;
- science and technology have received fresh attention, and exchanges of technical personnel with foreign countries have been expanded;
- a series of material incentives have been introduced, including production bonuses and retroactive wage increases;

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--tolerance of private plots and free markets continues.

There have been some isolated reports that material incentives have been reduced or even done away with in some factories. In the educational system, an attempt to put more emphasis in college entrance examinations on technical expertise and less on political criteria was blocked. Nevertheless, there is no indication that an across-the-board reversal of policy is being implemented or even contemplated.

The upswing in leftist propaganda came on the eve of the 10th Party Congress when opposing factions were pushing their respective candidates for key party posts. Economic issues have long been handy clubs for attacking political opponents. Still, the current moderate economic policies are controversial in and of themselves, and many officials have been purged for advocating similar views in the past. The fact that the public record of the congress makes no direct reference to economic policies underscores the sensitivity of these issues. Since the congress, the criticism in the media has continued, while other articles and broadcasts have attempted to defend current policies. The scope and importance of Western imports, for example, have been played down as "making foreign things serve China."

In such an uncertain atmosphere, lower level cadre must be reluctant to be identified with policies whose durability is dubious. Moreover, the attacks on these policies come at a time when Peking is exhorting the people "to dare to go against the tide"; i.e., to speak out against all questionable policies regardless of the immediate consequences. The continuing debate and absence of an authoritative affirmation of current policy from the party's top leaders can only add to the uncertainty that has already undermined the morale of cadre and confused local leadership. Until these matters are clarified, perhaps at the Fourth National People's Congress, many cadre will be reluctant to carry out Peking's directives in a decisive way.

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US-Soviet Relations: The View from Peking

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In the immediate aftermath of the Nixon-Brezhnev summit in June, Peking took the line that the various Soviet-US agreements signed at that time were mere scraps of paper. Since then, it has become apparent that the Chinese are in fact concerned over what they see as the implications and possible consequences of the summit and the agreements signed there.

The clearest indication of this concern has been Chinese propaganda and pronouncements on the themes of collusion and competition between the two superpowers. In his report to the Tenth Party Congress, Chou En-lai expressed concern over collusion between Moscow and the US, but he also confidently predicted that this would inevitably be superseded by global contention. Since the party congress, the Chinese have mixed commentaries stressing Soviet-US differences with others pointing up the dangers of cooperation between Washington and Moscow.

In September, for example, NCNA replayed a caustic article from a Japanese leftist journal entitled "The Illusion and Truth of the US-Soviet Summit--the Real Features of Soviet Social Imperialism." Brezhnev's goal in the summit talks, the article argued, was to "strengthen the hegemonic rule of the two superpowers"; the article also warned that world issues should not be settled by the superpowers. Soon after this, a long theoretical article in *Red Flag* reflected extreme sensitivity to Brezhnev's boast that the climate of world affairs is determined by the Soviet Union and the US. In one of the article's more defensive statements, the writer asserted that the US and the USSR certainly cannot determine the fate of the world since "the people and the people alone are the motive force in the making of world history." Most recently, an NCNA commentator condemned the nuclear monopoly of the superpowers and condemned both the US and Moscow as "nuclear overlords."

Chiao Kuan-hua advanced similar themes in his address to the UN on 2 October. For the most part, he followed the line laid down by Chou at the party congress, but he did introduce one new element: criticism of the Soviet-US agreement on the prevention of nuclear war, signed in June. Chiao said China recognized that the US and the USSR were entitled to take measures appropriate to furthering their bilateral relations, but the agreement on preventing nuclear war went far beyond the scope of bilateral relations. He expressed concern that in the case of a dispute between either of the parties and a third party, the "urgent consultations" called for in the agreement would inevitably lead to actions dictated by the self-interest of the US and of the USSR, rather than by the interests of the third party. Chiao added that China would not go begging for nuclear protection from any

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country and that China is not afraid of any nuclear threat. In his most critical commentary on the agreement, Chiao said caustically that it would hoodwink no one and that it would "only arouse indignation, misgivings, and disillusionment."

Running through Chiao's speech, the *Red Flag* article, and other recent Chinese pronouncements is an uneasy feeling that Peking's opening to the US has not resulted in as many benefits vis-a-vis the Soviets as the Chinese had expected. In addition, the Chinese may be somewhat frustrated by the apparent lack of realistic alternatives to the present policy. For example, a recent Chinese Communist Party study document notes that the US is a "slippery capitalist country" that is opportunistically trying to play China off against the USSR. Nevertheless, the document concludes, the danger from Moscow makes an accommodation with Washington necessary.

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In the UN, Peking Woos the Third World

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In his foreign policy speech to the UN General Assembly on 2 October, Chiao Kuan-hua underscored the conflict of interests between the superpowers and the third world. Although the US came in for a share of his criticism, Chiao's main effort was to blacken the image of the USSR and to win support among third world and European states.

Depicting the USSR as an expansionist state bent on influencing and controlling others, he attacked Soviet disarmament proposals, including Moscow's call for a 10-percent reduction in military budgets, and called on the USSR to cancel all the debts for military equipment owed it by other countries. Bearing down hard on the disarmament issue, Chiao portrayed Moscow's proposals as empty gestures put forward at a time when the USSR is striving to surpass the US as a military power. Chiao showed some sensitivity to charges that China seeks all or nothing in disarmament, but his main defense was a blanket attack on the USSR, supplemented by the proposition that the two superpowers should disarm first. Directing his argument at third world delegates, he emphasized the need for small- and medium-sized countries to strengthen their military defenses in order to resist superpower dictation and warned that the superpowers were prepared to interfere at will in the affairs of other countries.

Chiao's speech reflected the judgment contained in Chou En-lai's report to the Tenth Party Congress that the awakening of the third world is a major development of the present era. Lacking the economic or military strength of the US or USSR, Peking is seeking political support among the underdeveloped countries, posing as their ally against any efforts by the superpowers to dominate them.

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Rebuilding the Militia

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Articles in the Chinese press last month, heralding the 15th anniversary of a statement by Mao on militia building, indicate that Peking is trying to improve the organization and training of these para-military bodies. The organizational aspects will probably be stressed, factors that will have more impact in the political than in the military realm.

Militia building has received increased attention since the fall of former defense minister Lin Biao, who has been heavily criticized for attempting to downgrade the military role of the militia. The recent articles reaffirm Mao's basic concept of a people's war: that people are more important than weapons and that the militia will support the regular forces in wartime. In accordance with these principles, the articles carry appropriate statements about improving the level of military training. In 1969, after the clashes along the Sino-Soviet border, several militia units were singled out for special training and were provided with modern equipment. Select units like these--together with elements of the "armed militia," the elite of the regular organization--will support the army in time of war. In the long view, however, few real advances are likely in the military proficiency of the overwhelming majority of units, the "ordinary militia."

Available evidence suggests that the militia will play a more influential role in internal security and police work. Radiobroadcasts from Peking have noted the militia's ability to perform guard duties and street patrols, which may indicate that militiamen will relieve regular troops of some of these burdensome duties. A report from Canton says that militia units are being strengthened for the stated purpose of replacing army personnel in maintaining law and order. Crime and disorder in Canton and other cities in south China have been persistent problems in the last few years. Down-to-the-countryside youths, residing illegally in urban areas, are primarily responsible because crime is often their sole means of support. Local public security forces, still recovering from the damage inflicted on them during the Cultural Revolution, have been unable to control the disorders despite some help from the trade unions. Hence, the army has remained the ultimate instrument of law and order in south China.

In contrast with militia-building efforts last year, which appeared to be concentrated in rural areas, Chinese articles this year are stressing the militia in urban areas. New centralized militia commands have recently been formed in Peking and Shanghai, and other cities will probably follow suit. The commander of Peking's

million "worker-militia," Ni Chih-fu, was elected an alternate member of the Politburo at the Tenth Party Congress. The fact that Ni is a national worker-hero, not a military man, is a further indication that the current militia-building drive has political rather than military goals.

A reduction of the political power and influence of regular army garrison units is inherent in the strengthening of urban militia units. Uniformed soldiers replaced urban police forces during the Cultural Revolution, and a number of officers reportedly still hold key posts in the rebuilt public security apparatus. Civilian authorities, uneasy about the military's large role in politics, may be supporting greater responsibility for the militia in order to reduce the influence of local garrison commanders. Numerous domestic articles stressing the importance of party, as distinct from military, authorities taking charge of militia work at all levels tend to support this conclusion.

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Diplomatic Slowdown in Southeast Asia

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China's effort to normalize relations with neighboring states in Southeast Asia has lost momentum during the past few months. Sino-Malaysian talks at the UN on diplomatic recognition have been stalled since summer over the issue of some 200,000 stateless Chinese in Malaysia. As a condition for recognition, Kuala Lumpur is demanding that Peking publicly acknowledge Malaysian sovereignty over this group, while China insists the issue be taken up after relations have been established. The net effect is that, whereas recognition yet this year once appeared likely, Kuala Lumpur has ruled it out before early 1974.

As for Thailand, Peking has reciprocated Thai moves aimed at slowing the pace of rapprochement.

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Chinese press has carried items somewhat critical of Bangkok's policies. Only recently, Chinese officials had given Thai visitors the impression that Peking had no intention of making unfriendly comments.

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The real reason for the slowing of Sino-Thai normalization, however, is almost certainly Bangkok's inability to pry out of Peking any assurances of an end to Chinese support for Thai insurgents. The two sides failed to resolve the issue in talks this summer, and both countries subsequently openly expressed their displeasure at the lack of progress.

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Peking has also encountered difficulties in establishing closer relationships elsewhere in the region. Jakarta still shows no inclination to resume full diplomatic relations soon, despite periodic Chinese prodding; Rangoon is seeking to forge closer ties with some of its neighbors, in part because of the Communist insurgency in the northeast; and Manila continues to indicate that any improvement in its relations with Peking will be matched by parallel steps toward Moscow.

The signs of a ground-swell in Southeast Asia for early recognition of Peking that were evident in 1972 at the time of the visits of high-level American and Japanese officials to China have somewhat dissipated. Chinese setbacks in the region are mutually reinforcing, encouraging those officials in Bangkok, Jakarta, and Singapore who are reluctant to establish relations with Peking. Many Southeast Asian leaders apparently believe that the disadvantages stemming from relations

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outweigh the advantages, particularly since the Chinese seem unwilling to give any meaningful assurances on the issue of support to local insurgencies. Other motivations for establishing closer ties - the desire to develop a more balanced foreign policy and to open a regular channel of communications with a country that is expected to have growing influence in future Asian affairs - have been at least partially satisfied by Peking's willingness to participate in trade and cultural exchanges with Southeast Asian governments outside of formal diplomatic relationships.

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Expanding the Merchant Fleet

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Peking is rapidly expanding its international merchant fleet to meet anticipated increases in foreign trade. Since 1971, China and Chinese-controlled shipping companies in Hong Kong have purchased nearly 150 ships, more than doubling the size of the Chinese merchant fleet. Already this year nearly 50 ships have been added, increasing tonnage by over 25 percent. Peking now owns or controls a merchant fleet of 256 ships of 3.1 million dead weight tons, still relatively small compared with the US and Soviet fleets.

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Chinese ports also will need to be modernized to accommodate expanding trade requirements. At present, none is deep enough to handle the 50-foot drafts of 100,000-ton tankers, and few ports, aside from Dairen and Shanghai, have sufficient petroleum-handling facilities. Moreover, most ports in China have obsolete cargo-handling facilities. In an attempt to remedy these deficiencies, Peking has purchased dredging equipment from Japan and the Netherlands and has been talking with US and Japanese firms about acquiring container-handling facilities.

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CHRONOLOGY

18 September	Asian Games Federation executive committee admits Peking in place of Taipei. [REDACTED]	25X1
18-30 September	Chinese badminton team tours Malaysia. [REDACTED]	25X1
19 September	Chou En-lai meets with Nepalese Foreign Minister in preparation for the visit to China of the Nepalese King. [REDACTED]	25X1
20 September	New Zealand's first ambassador to China presents credentials. [REDACTED]	25X1
3 October	NCNA announces that Secretary Kissinger will visit China, 26-29 October. [REDACTED]	25X1
	Chiao Kuan-hau attends banquet in New York hosted by Secretary Kissinger. [REDACTED]	25X1
5 October	Announcement of the Chinese purchase of \$1 billion worth of wheat from Canada over the next three years, the largest wheat deal ever signed by China. [REDACTED]	25X1
	Annual Chinese aid protocol to North Vietnam signed for both military and economic assistance. [REDACTED]	25X1
6 October	Charge Chu Hsien-sung arrives to open PRC embassy in Upper Volta. [REDACTED]	25X1
8 October	PRC issues official statement supporting the Arab states in the fighting with Israel. [REDACTED]	25X1
9 October	New Zealand trade delegation in China since 4 October, signs first bilateral trade agreement. [REDACTED]	25X1
10 October	Canadian Prime Minister Trudeau arrives in Peking for state visit; he is greeted by Chou En-lai. [REDACTED]	25X1